

July 2012  
FACT SHEET

# A NEW CLASSIFICATION SCHEME FOR **FOR-PROFIT** **INSTITUTIONS**

For-profit institutions are more visible today among policymakers, researchers, and investors, due in large part to the sharp rise in the number of students attending them over the last decade. From 2000 to 2009, enrollment in the for-profit sector tripled while enrollment in the public and not-for-profit sectors increased by less than 25 percent. By 2009, for-profits made up 43 percent of all postsecondary institutions in the United States and enrolled nearly 10 percent of all undergraduate students. Clearly, it is crucial to understand this sector and the ways in which for-profits contribute to educating students.

For-profits are often quite different from their counterparts in other sectors. For example, they are smaller in size, less likely to offer degrees, and more likely to be located in metropolitan areas than institutions in other sectors. Most (90 percent) of for-profits have less than 1,000 students, a majority (62 percent) are non-degree granting, and most (86 percent) are located in metropolitan areas. Students attending for-profits are more likely than students in other sectors to be older, female, non-White, independent, and first in their family to attend college. Yet there is also wide variation within the for-profit sector, from small cosmetology schools to local campuses specializing in business or technology to online universities offering a wide range of degrees. Capturing this diversity is essential to understanding the sector—and one way to do so is a classification scheme that can be used to compare institutions and the students they serve. Many classification schemes

have been used to group postsecondary institutions, usually based solely on institutional characteristics such as size, degree programs, and student demographics. While the characteristics used in existing classification schemes are acceptable for the public and private not-for-profit sectors, they do not capture the uniqueness of for-profit institutions, causing the sector to be treated as monolithic and broad strokes are used to describe for-profit institutions and students. A multifaceted framework to reflect the diversity in the for-profit sector is needed. To that end, this report describes a new classification scheme solely for the for-profit sector that includes criteria that are different than those used in existing schemes—the markets that for-profits operate in, institutional specialization, and the ways in which students engage for-profits.

The classification is based on three multiple criteria:

**1. The market-level dimension measures the growth of for-profit institutions in selected educational markets as well as the relative affluence of those markets;**

About 86 percent of for-profits are located in metropolitan areas, but enrollment growth of for-profits in these communities has been uneven (**FIGURE 1**). Thus, this dimension first distinguishes between areas that have experienced above-average expansion (or contraction) in for-profit enrollment from 2003 to 2009 relative to the sector's overall growth in the state during the same time period. The market-level dimension does not solely focus on for-profit enrollment growth, but also on where the growth is occurring, especially metro areas with relatively low household incomes (**FIGURE 2**).

**2. The institutional-level dimension captures the institutional orientation of for-profits while also taking growth into account; and**

In general, postsecondary institutions that are highly specialized (i.e., offering mainly short-term, technical

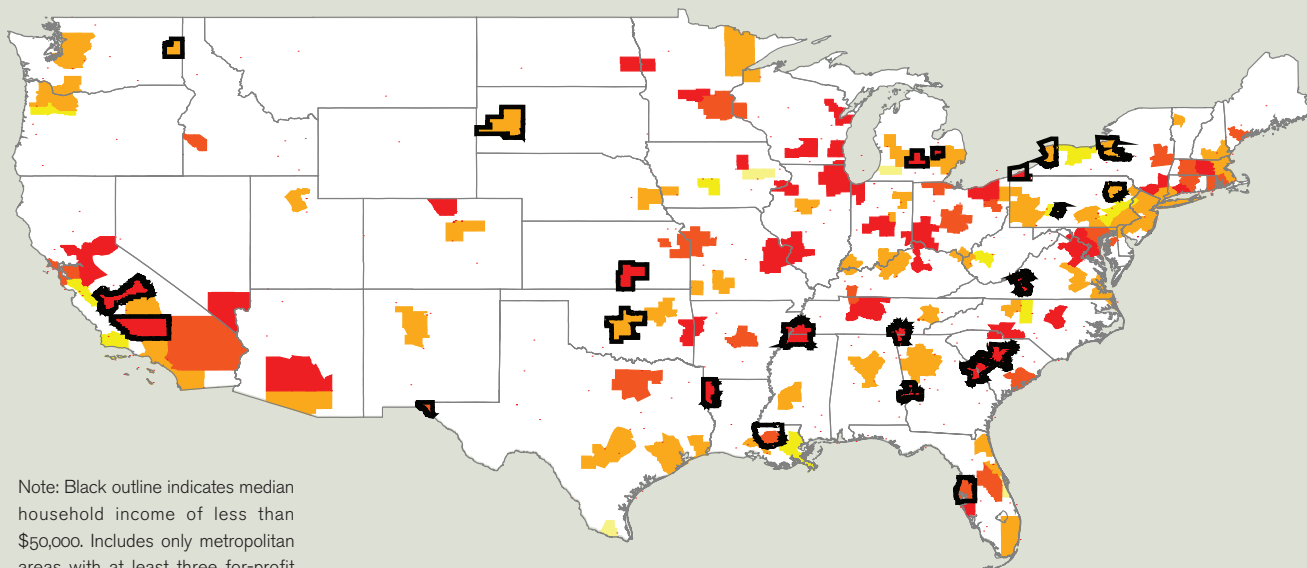
programs that lead to a certificate) are less complex than more comprehensive institutions due to their focused educational mission. Often, this specialization means that students enroll full-time in order to complete their (short-term) program of study. For this classification, the institutional-level dimension measures for-profits' degree of specialization using the percentage of students who are enrolled full time as a proxy (**FIGURE 3**).

**3. The individual-level dimension focuses on the enrollment behavior of students at for-profits, given the institutional niche of the for-profits they attend.**

Comparatively little attention has been paid to the way students engage the for-profit sector, especially if they did not begin there. Attendance that is exclusive to or combined with attendance at other types of postsecondary attendance may explain students' eventual success. This dimension accounts for intersectoral (or mixed) attendance patterns as well as enrollment that remained within the for-profit sector (**FIGURE 4**).

## FIGURE 1

### MAP OF FOR-PROFIT GROWTH BY METROPOLITAN AREA, 2003–09



Note: Black outline indicates median household income of less than \$50,000. Includes only metropolitan areas with at least three for-profit institutions in both 2003 and 2009.

Source: U.S. Department of Education, Integrated Postsecondary Education Data System, 2003–04 and 2008–09; U.S. Census Bureau, *American Community Survey*, 2008; authors' calculation

#### LEGEND

Dark Red—For-profit enrollment increase of 50 percent or greater  
Dark Orange—For-profit enrollment increase between 20 and 49 percent  
Light Orange—Steady for-profit enrollment (decrease or increase of no more than 20 percent)  
Dark Yellow—For-profit enrollment decrease between 20 and 49 percent  
Light Yellow—For-profit enrollment decrease of 50 percent or greater

Each of these dimensions can illustrate snapshots of the for-profit sector, showing that for-profit growth has not been uniform—either by geographic location or institutional specialization—and for-profit students use the sector in novel ways. For example,

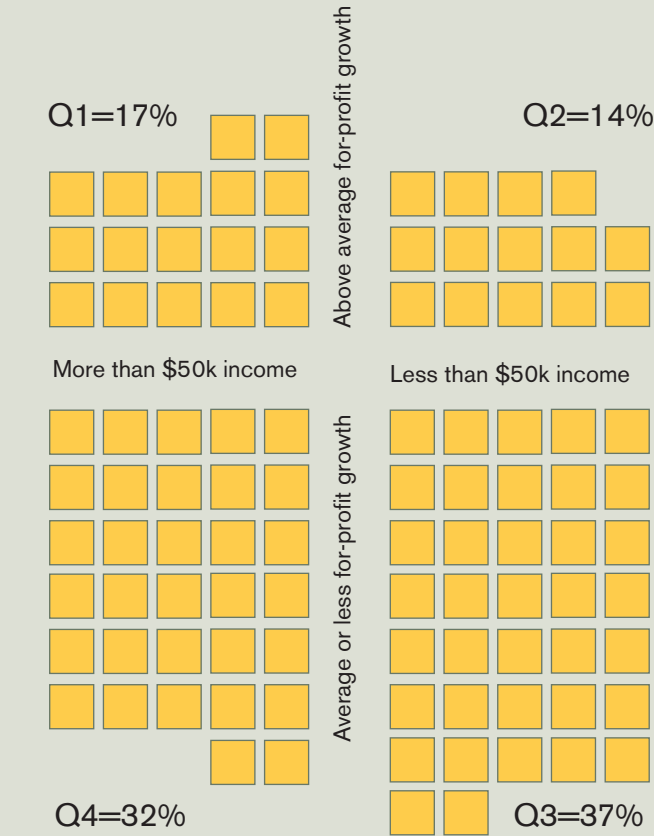
- Nearly one-third of metropolitan areas have experienced above average enrollment growth in the for-profit sector in the past decade, and one in seven of the nation's poorest metropolitan areas has seen a particularly sharp rise in for-profit enrollment.
- Most (66 percent) for-profit institutions are comprehensive—they offer a wide range of degree programs and serve a variety of students—and this type of institution is dominant in metropolitan areas that have experienced above average for-profit growth.
- And of the students who attended a for-profit institution for at least one semester, 70 percent stayed exclusively in the for-profit sector and 54 percent of these students attended only comprehensive institutions.

When the dimensions are combined, the classification provides a framework flexible enough to compare for-profit institutions and students in the same categories along an assortment of key outcomes.

As a whole, the classification allows a focus only on the differences between for-profits that are similar and between students who engage the for-profit sector in the same way. It represents a new way of thinking about for-profit institutions. However, this is just the first step. The next step is to compare and analyze outcomes using peer groups determined by the classification. The classification may also be used as a lens to examine issues of educational quality, competition, and appropriate policy levers to ensure fiscal transparency. In applying the classification, the for-profit sector can be viewed as a highly differentiated set of institutions rather than as a monolithic sector. This will allow a better targeted set of policy interventions or program supports toward the goal of improving postsecondary education outcomes.

**Highlighted data emphasize key points from the Institute for Higher Education Policy (IHEP) report, *A New Classification Scheme for For-Profit Institutions*. For more information or to download a free copy, visit IHEP's Web site at [www.ihep.org](http://www.ihep.org)**

**FIGURE 2**  
**MARKET-LEVEL DIMENSION OF FOR-PROFIT CLASSIFICATION**

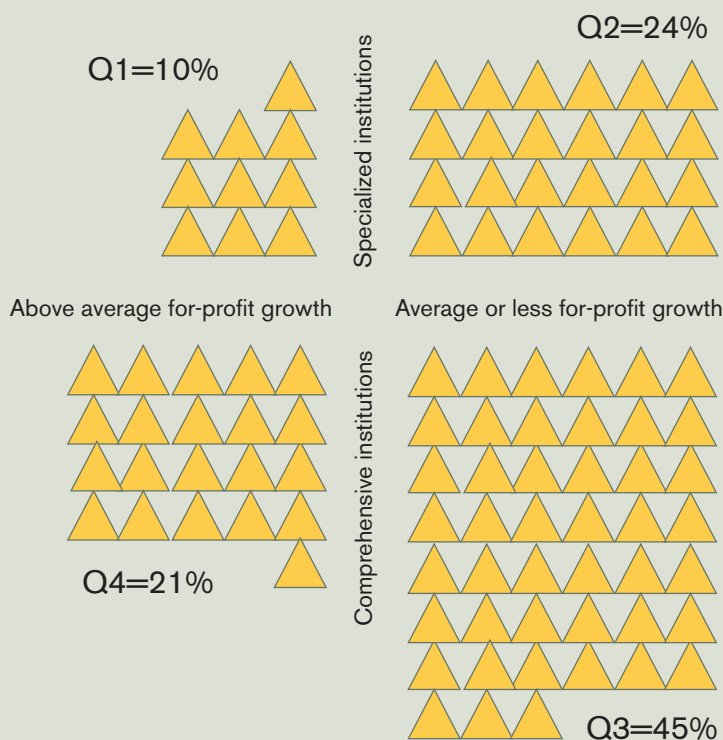


Note: Percentages represent the proportion of MSAs with three or more for-profit institutions in each quadrant. Market affluence is based on median household income from 2008. For-profit growth measures metro-level enrollment growth relative to the growth of the for-profit sector in the state. **SEE APPENDIX A** for data sources, definitions, and methodology.

## FIGURE 3

### INSTITUTIONAL-LEVEL DIMENSION OF FOR-PROFIT CLASSIFICATION

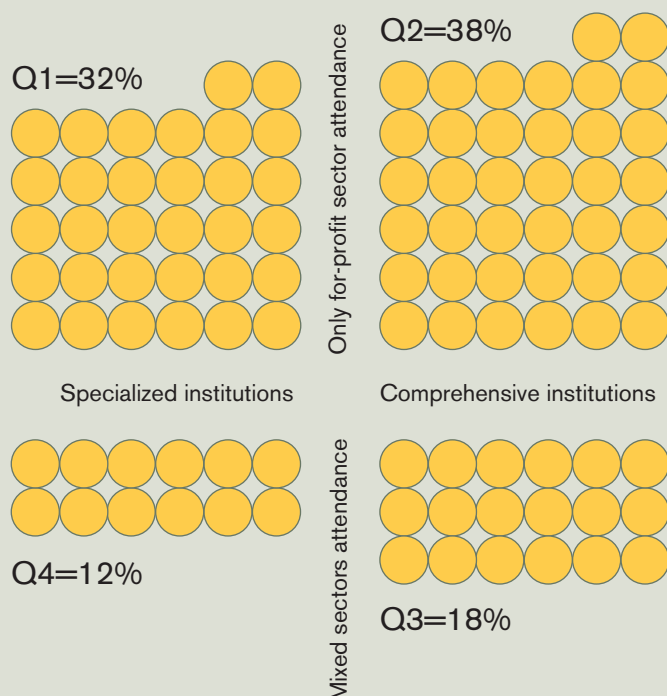
Note: Percentages represent the proportion of for-profit institutions in each quadrant. For-profit growth measures metro-level enrollment growth relative to the growth of the for-profit sector in the state. Institutional specialization is based on the proportion of full-time students. **SEE APPENDIX A** for data sources, definitions, and methodology.



## FIGURE 4

### INDIVIDUAL-LEVEL DIMENSION OF THE FOR-PROFIT CLASSIFICATION

Note: Percentages represent the proportion of first-time students in each quadrant. Institutional specialization is based on the proportion of full-time students who had ever attended a for-profit. For-profit attendance focuses on whether or not students attended only for-profits. **SEE APPENDIX A** for data sources, definitions, and methodology.



**The Institute for Higher Education Policy (IHEP)** is a nonpartisan, nonprofit organization committed to promoting access to and success in higher education for all students. Based in Washington, D.C., IHEP develops innovative policy- and practice-oriented research to guide policymakers and education leaders, who develop high-impact policies that will address our nation's most pressing education challenges.



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